The INVESTMENT COLLECTIVE

INVESTMENT MARKET UPDATE

ISSUE 78 Winter 2021

"OUR DUTY IS YOUR FUTURE"™

MESSAGE FROM MANAGER

Returning from a short trip on the weekend, we made a stop at Clairview, about two hours drive north of Rockhampton. That people were milling around the toilet block was unusual, but the reason soon became clear – there was no loo paper! With backup in the car we were soon ready to leave, but not before being bailed up by two grey nomad couples, wanting directions to the 'town centre'. Now Clairview is a seaside hamlet, situated at one of the few places the national highway actually touches the coast. If you are there at high tide you'll think you landed in paradise – a narrow beach, the bluest water you can imagine and islands scattered all the way to the horizon. If you can get your eye in, you'll often see herds of Dugong grabbing a breath of air while snuffling for seagrass. At low tide, the flats reach so far out that you can barely tell where the water begins. One day I measured the distance using a GPS- it was exactly 1km from the bottom of the boat ramp to the water.

For all its charm, Clairview itself is just a strip of buildings lining the original highway. Any reasonable person would have to say that its only concession to town life would be the Crabpot Bar at Barracrab Caravan Park. The view from the front entrance is magnificent, but once inside it is very difficult to escape!

And so it was that the grey nomads were in a real state. They didn't want to pay for a site, and they were hungry. I explained that just 20km up the road the Flaggy Rock Café had ample parking and some of the best café food you'd get anywhere - to which one of the women "humphed", and said there was only one way out of Clairview and they couldn't turn the van around. I explained that the road would again meet the highway in about 2km. Last I saw they were back in the car – and if they followed my instructions they would have enjoyed a great meal, and a half hour later followed it up at the Koumala Pub with some of the best on tap beer anywhere.

> "Enjoying retirement on a beautiful day in a beautiful place, trailing a caravan is something a whole lot of people aspire to."

The grey nomads chucking a turn at Clairview struck me because enjoying retirement on a beautiful day in a beautiful place, trailing a $70,000 caravan is something a whole lot of people aspire to. Their attitude meant they never saw the beach, or the islands, or the Dugong. It dawned on me that since COVID-19, the level of stress in our society seems to have increased markedly. Early on, people accepted the lockdowns as necessary, and in Victoria in particular, people took it on the chin for the greater good. As time has gone on though, the toll on people is becoming more and more obvious.

It's not just on the road. For months I have noticed people becoming more aggressive in their phone manner. The other day a staff member was berated for simply calling a company to ask if there had been any action regarding a request lodged three months ago. Medical people report high levels of abuse from patients, the majority of which don't understand the system or are too out of their heads to engage in anything. An ex-client of modest means bailed up a staff member on the basis that I had no right to be driving the sports car that is regularly parked near our building (the car's not mine!).

With so many people working from home, calls go unanswered, and getting through to the relevant person has become a half day exercise. At the same time government departments and agencies in particular have responded by prefacing their already long introductory messages with admonitions to treat staff with respect. On hold with Australia Post the other week, I was reminded that I should not vilify homosexuals (I don't know about you, but "you bloody queen", isn't the first phrase I'd think of if I was cross).

Across our business we have about 40 staff. As far as the investment, superannuation, retirement and business planning landscape is concerned, we're locals. We don't have long lead in messages, and people pick up the phone if it rings. If we can't give you an answer there and then, we call back with the right information. It's us that deal with the long on holds, and the endless bureaucracy of government departments, investment houses and superannuation bodies. Every one of our staff is committed to helping you and that's the way it should be. And by doing that hopefully we've freed up time for you to really enjoy the beaches, the islands, and the Dugong.

David French
Managing Director

Office Update

This month marked a very important date in our calendars here at The Investment Collective, the Grand Opening of our new Gladstone office.

Since the acquisition of the Gladstone office in November 2020, Allan and Liz continued to work out of the original office location. The former office was in need of some upgrades and was smaller than required for our ever growing team.

A successful property search, by Diane Booth, secured a sought after new location on the main street of Gladstone, Goondoon Street. Our Gladstone team had been waiting patiently while the new location was upgraded and branded to The Investment Collective.

On 9 July 2021, we formally celebrated with the Grand Opening of our Gladstone office. This event was attended by clients, staff, various community members and stakeholders. It was an enjoyable evening, with fantastic catering from a local company and one lucky attendee went home with our coveted lucky door prize! It was great to touch base and continue to build momentum in Gladstone.

> "This celebration will hopefully be one of many as we continue to grow the business."

This celebration will hopefully be one of many as we continue to grow the business through acquisitions.

The Gladstone acquisition has been a positive experience for The Investment Collective, largely due to the brilliant team members we gained in Allan McGregor and Liz Whalley. We would like to thank everyone that joined us in celebrating this landmark event and thank you to all our Gladstone clients for your ongoing support.

Alice Knight
Office Manager

Client advisory restructure

We recently undertook a review regarding the operation of our advisory services. That is, the work undertaken by advisers on your behalf and the support they receive from others within the business to deliver our services to you.

To date our advisers have operated individually in providing clients with a range of financial planning services. For example, when your adviser meets with you for your regular review they will come to your meeting with a set of investment reports and an agenda of items they'll wish to discuss with you; such items include an update on your cash flows, Centrelink, investments and so on. Subsequent to your meeting, your adviser will prepare a file note of issues discussed and actions agreed to. They'll then delegate the follow up actions to a pool of support staff that all advisers have access to.

All of this, preparing for your meeting, writing up file notes and directing any follow up actions as may be required, absorbs a lot of the adviser's time. The feedback we have been receiving from you, our clients, is that the financial planning process just seems to take a long time, and during the last 12 months or so, even longer. There's all sorts of reasons for this delay, some we cannot control (think restrictive lock downs) and some we can control (think allocation of resources).

In response to your feedback, we have applied additional resources (at some considerable expense) and have implemented, effective from 1 July 2021, a restructuring of our advisory services.

You'll see below that we have established three teams, two based in Melbourne, and one in Queensland. Each team is headed by a Managing Adviser who will be supported by a further Adviser as well as two dedicated support staff, an Advising Associate and an Advisory Assistant.

As such, you will have a dedicated 'visible' team looking after your affairs. If your particular adviser is not available, there will be two or three other people that will know you, know your situation and be able to assist.

We believe this will help make a positive difference in the depth and timeliness of the delivery of our financial services. See below the restructured advisory teams.

Robert Syben
Head of Financial Planning

Melbourne Based 1	Melbourne Based 2	Queensland Based
Managing Adviser Stephen Coniglione 	**Managing Adviser** Cheng Qian 	**Managing Adviser** Dean Tipping 
Adviser Tracey Briggs 	**Adviser** TBC	**Adviser** Allan McGregor 
Advising Associate John Zahra 	**Advising Associate** Joshua Koster 	**Advising Associate** Elizabeth Whalley 
Advisory Assistant Jayde Garth 	**Advisory Assistant** Demi Sanderson 	**Advisory Assistant** Larissa Dowdle 

Marketing Update

Fitzroy Frogs GKI Trail Run

The Investment Collective were proud to once again be the major sponsor of the Fitzroy Frog's GKI Trail Run! Taking place on 13 June 2021, the event offers competitors the opportunity to compete in run/walk events across the picturesque GKI. David French was in attendance and completed the 22.2km "The Wreck" trail run.

Our New Billboard!

From July, some of our Rockhampton and Yeppoon clients may have noticed we installed a new billboard. Keep on the lookout if you're travelling along the Rockhampton-Yeppoon Road!

Beef Week 2021

A number of our staff attended Beef Week from May 2-8 in Rockhampton. Including attendance at a number of networking/social events and the impressive beef trade fair exhibits!

Asset rich and cash flow poor

The cost of retirement in Australia continues to rise and I have noticed increased cost pressure on retirees everyday expenses.

I'm often asked the question "how much do we need to save for retirement?" There is no simple answer to this question as everyone has different living standards and one could go without what you might consider essential.

According to the Association of Superannuation Funds of Australia, to live a comfortable retirement at age 65 a couple will need $640,000 saved or funds of $62,562 per year. For a couple aged around 85, the funds needed per year falls to $58,871.

Some older Australians who are homeowners feel anxious about their retirement and being able to meet their income needs. Being asset rich and cash flow poor is not an unusual dilemma.

One option to consider is downsizing your family home.

Selling the family home may allow eligible individuals to make a downsizer contribution from the capital proceeds into their superannuation of up to $300,000. A couple can contribute up to $600,000.

A downsizer contribution isn't treated as a non-concessional contribution and will not count towards an individual's contribution caps.

Eligibility criteria

- Homeowners aged 65 years or over. The 2021-22 budget proposed reducing the eligibility age down to 60.
- Owned an Australian property for at least 10 years and it must be your primary residence within this period to qualify for the capital gains tax exemption. A houseboat, caravan or mobile home are not included.
- Must not have previously made a downsizer contribution using the proceeds from the sale of another home.
- The contribution must be made within 90 days of when the change of ownership occurs.
- You must provide your superannuation fund with the downsizer contribution into super form.

There is no requirement to purchase another home, for example, you may rent or go into aged care.

> "Some older Australians who are homeowners feel anxious about their retirement."

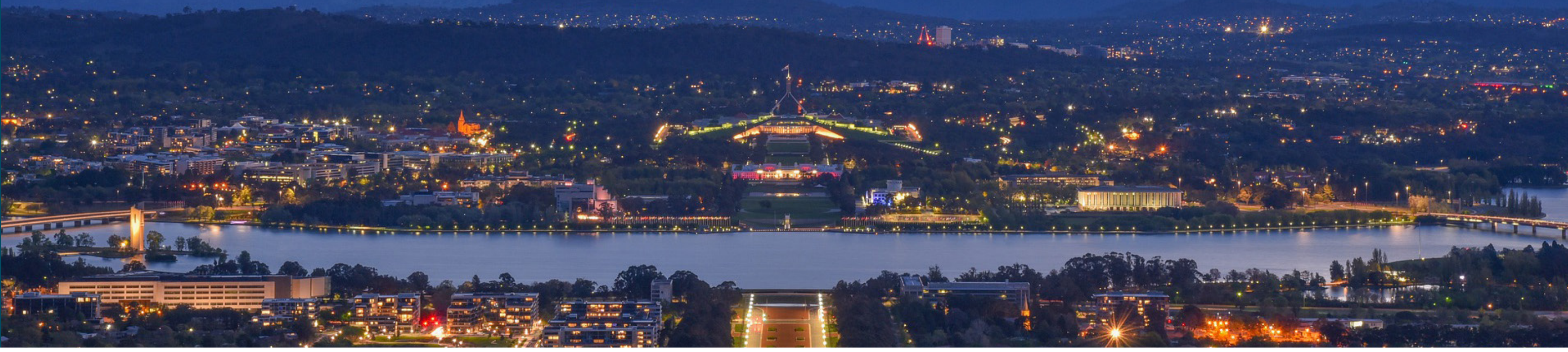
Things you should consider

Age Pension implication - currently, your primary residence is exempt as an asset from assessment of entitlement to the Age Pension. Your superannuation is assessed and the downsizer contribution may affect your Age Pension entitlement.

Contributing to a self managed superannuation fund - it is essential for trustees or members of a self managed superannuation fund to ensure that a downsizer contribution into the fund is permitted by the trust deed.

This is just one of the options older Australians have to top up their superannuation for a more comfortable retirement.

Stephen Coniglione
Managing Adviser



Government superannuation reforms

In what seems to be the ever changing world of superannuation, the Commonwealth Government has recently passed the following reforms:

Increasing the number of members for a Self Managed Superannuation Fund (SMSF) to six from 1 July 2021.

This is useful for a family business that wants the SMSF to own the commercial property out of which the business trades, thereby 'keeping the wealth within the family' rather than contributing rent into the wealth accumulation strategy of an external landlord.

Increasing the number of members in a SMSF will allow for the asset pool to increase thereby opening up investment options and strategies available to the fund in order to meet wealth accumulation objectives.

Extending bring forward rules for Non Concessional Contributions (NCC) to those 65-66 years old from 1 July 2021.

From the 2020/21 financial year, people aged 65-66 were permitted to make a voluntary contribution into superannuation without having to satisfy the work test. This allows for a NCC to be made up to the now increased $110K maximum limit, per annum from 1 July 2021.

"These are positive steps to alleviate gaps in the retirement system."

At the time of this introduction to allow those aged 65-66 to make a NCC, the 'bring forward' of two future years was not permitted, which of course was inconsistent with the spirit of superannuation. However, it was hotly anticipated that the restriction would eventually be removed, which it has now been. Two future years of NCCs can now be brought forward resulting in a maximum of $330K that can be voluntarily contributed into superannuation for those aged 65 and 66.

Extend pension drawdown relief by 50% over the 2021/22 financial year.

For the last two financial years the minimum pension payment required to be taken by superannuants from their pension accounts was reduced by 50%.

This was a measure introduced to alleviate the pressure on pension accounts being drawn down unnecessarily, resulting in 'forced' asset sales to shore up available cash at a time when financial markets were depressed. In essence, the concept was aimed at increasing the 'longevity' of pension accounts.

This measure has been extended into the current 2021/22 financial year. This no doubt will be well received by those in pension mode that don't require the otherwise 'normal' minimum withdrawal.

Superannuation guarantee increase to 10% on 1 July 2021.

This refers to the amount employers are required to 'compulsory' contribute into superannuation on behalf of an employee. Previously the rate was set at 9.5% of gross salary, it is now 10%.

Another change to be aware of is the increase in contribution caps for the two different types of contributions. As mentioned above, the 'NCC' cap has been increased to $110K per annum. Similarly, the 'concessional' or taxable contribution cap has been increased by 10% to $27,500 per annum.

There is further scope and incentive for those in accumulation mode to increase the amount that can be contributed into their retirement asset of superannuation.

These are positive steps to alleviate gaps in the retirement system, which will make it fairer for everyone.

Dean Tipping
Managing Adviser

Risk profiling in financial plans

Clients often wonder why as advisers we explore client's risk profiles, and what does it really do? Risk profiling is a process for determining appropriate investment asset allocations for each investor. There is no right or wrong answers, only what suits you.

The key components for establishing a risk profile are:

- What is the level of risk the client is comfortable taking?
- How much financial risk can a client afford to take?
- What risk is required to achieve the goals with the financial assets at the client's disposal?

What risk is a client willing to take?

At some point you will have encountered the classic risk vs return curve, that is to get the most return you must take the most risk. The lure of the high prize must be traded off against the risk of significant loss. Like at a casino, the odds are not always in your favour and a high risk strategy can see high volatility and sharp rises and falls in a client's portfolio. This may appeal to some clients, but to others, this is a nightmare, it could mean an extension of your working career rather than early retirement or vice versa. Generally speaking, age is often a key factor associated with risk tolerance, the younger we are the more risk we are willing to accept and as we age, we slide back along the risk curve to a less risky asset allocation. This is often termed as reducing 'sequencing risk'.

How much financial risk can a client afford to take?

This component will often consider two items, stage of life and the number of assets available. The younger we are, the greater time we have to recover and rebuild from a financial setback. Similarly, if we have a higher amount of financial assets at our disposal, we may choose to allocate a higher percentage of these targeting greater returns knowing we still have a sound financial base to fall back on.

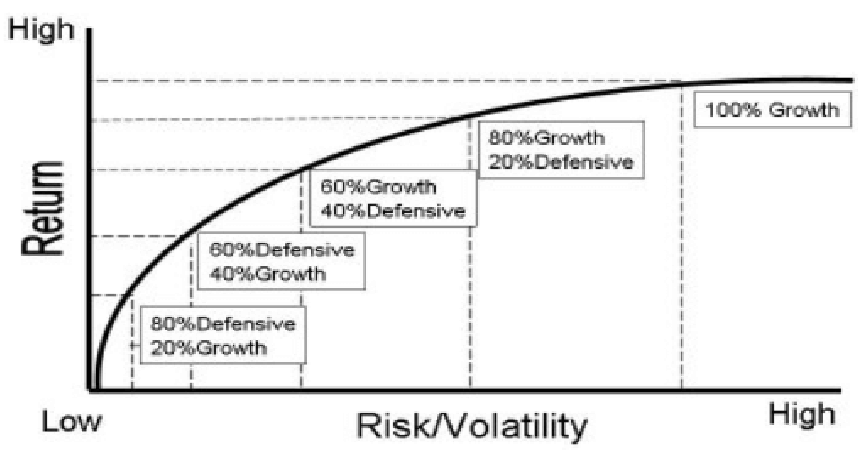
How much risk do my goals need?

Something that many people ignore is that to achieve their goals, they simply do not need to take excessive levels of risk. The ability to recognize and discuss this is something to work through with your financial adviser. Similarly, sometimes goals require a level of risky investment that is inappropriate to a client. Discussion over conflicting goals and risk is very important to ensure you get the right investment plan for you.

Through each of these components of risk profiling, there are some common factors and gaining an understanding of these factors for each client is critical in the development of financial plans:

- Goals – what is it, how much, and what is the priority?
- Timeframe – what is the timeline for each of your goals?
- Investment capital – how much do you have to build wealth?
- Client age – how far into your life cycle are you?
- Liquidity, Income and Growth – do you require liquid funds for lump sum expenditure, do you require regular income from investments, are you focused on growth only?

In summary, the main issue isn't if you have a high growth, balanced or conservative profile, the most important aspect is that your risk profile reflects you and your personal circumstances. Risk profiling is important for an adviser to review regularly with clients to ensure the clients' thoughts and preferences have not changed over time and that the investment remains appropriate.



Allan McGregor
Financial Adviser

Centrelink Update

Happy New (Financial) Year! Services Australia has announced that the 2020-2021 payment summaries are now available. These payment summaries will display the taxable and some non-taxable payments for the 2020-2021 financial year. If you require a copy of your own payment summary, please contact us to request it.

If you do need to lodge a tax return for 2020-2021, Services Australia recommends that you wait until the ATO pre-fills your income information before you lodge. If you lodge too early, you may need to amend your tax return later. If Services Australia changes your 2020-2021 payment summary, an amended summary will be done.

Beware of a new MyGov identity scam which involves fake emails claiming to be from MyGov requesting you to open a link to confirm your identity. Do not open this link. These scam emails have screen shots of the MyGovID app at the top which appears legitimate, but in reality, are fake. Do not click on any links or respond to the email.

MyGov will never request that you open a link in an email or SMS. They will never request you sign in through a link in an email, you will only get links from MyGov in a MyGov Inbox message, and you can only see these messages after securely signing into your MyGov account.

If you think you have been scammed and you had provided your bank details, contact your bank immediately. Ensure you also change your MyGov password immediately. If you are still concerned and need more support you can:

- Call the Scams and Identity Theft Helpdesk, or;
- Send an email to the Scams and Identity Theft Helpdesk.

Effective 1 July 2021, the age to qualify for an age pension increased to 66 years and 6 months. If you were born between 1 July 1955 and 31 December 1956, you must be 66 years and 6 months to be eligible for age pension.

Services Australia's assets threshold for the full pension effective 1 July 2021

Your Situation	Home owner	Non-home owner
Single	$270,500	$487,000
A couple, combined	$405,000	$621,500
Illness separated couple, combined	$405,000	$621,500
A couple, 1 partner eligible, combined	$405,000	$621,500

Services Australia's assets threshold for the part pension effective 1 July 2021

Your Situation	Home owner	Non-home owner
Single	$588,250	$804,750
A couple, combined	$884,000	$1,100,500
Illness separated couple, combined	$1,040,500	$1,257,000
A couple, 1 partner eligible, combined	$884,000	$1,100,500

Please continue to inform us if your income and asset values change, so we can notify Services Australia and ensure you continue to receive your full pension entitlements. If you are interested in The Investment Collective being your Services Australia nominee, please notify us.

Scams and Identity Theft Helpdesk contact information.

Phone: 1800 941 126

Email: reportascam@servicesaustralia.gov.au

Larissa Dowdle
Advisory Assistant

Woolworths (ASX:WOW) Endeavour Drinks (ASX:EDV) Demerger

Woolworths (WOW) has demerged its Endeavour Drinks subsidiary into a new, listed entity. WOW shareholders received 1 share in Endeavour Drinks (EDV) for every WOW share they owned.

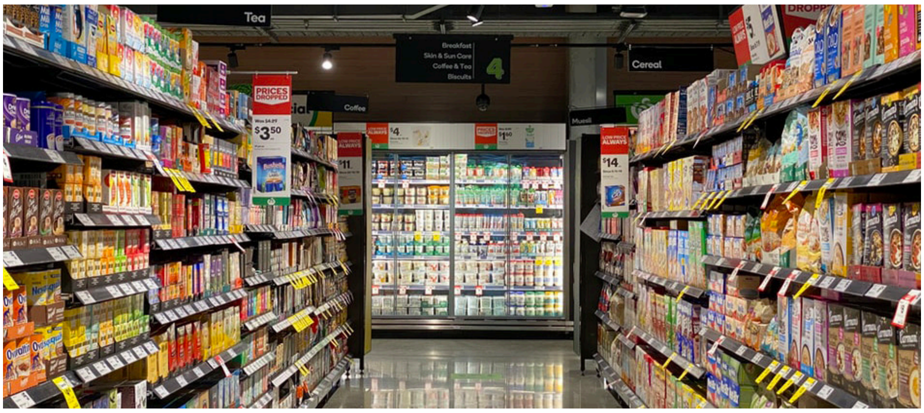
WOW will retain 14.6% of EDV with Bruce Mathieson owning another 14.6%. Bruce has made his fortune in hotels and owned 25% of the ASX listed, Australian Leisure and Hospitality. With years of experience, Bruce will be a great partner for the business. Existing WOW shareholders will own the other 70.8%.

Woolworths

WOW will retain 100% of its food retailing operations in Australia and New Zealand. It's been a long journey for our investors with this company and there have been many milestones along the way that we feel needed to happen to fully realise the value of the company. First, the company liquidated Masters Hardware which had lost $2b over five years and seen management lose focus on the core food operations. Second, the company exited petrol retailing operations for a total consideration of $1.725b, a profit of $1.2b. Funds from the sale were used to buy back 3.7% of the shares in Woolworths. Third, WOW has demerged EDV, which will free up $1.2b in cash and enable EDV to fund its own growth going forward.

WOW will end up with no net debt supported by $7.4b of equity. We would expect a material buyback or return of capital to owners worth around $1.25 per share. We view this transaction as a sensible thing for WOW to be doing.

If you have ethical concerns with Endeavour, you should probably sell on market in the early days of trading. If you are comfortable with a business focused primarily on alcohol and gambling we believe that Endeavour could be an excellent longer term opportunity.



What Does Endeavour Drinks do?

Endeavour Drinks (EDV) owns high volume alcohol retailers Dan Murphy's and BWS, who have a combined 1,630 stores. It has a number of specialist alcohol businesses including wine retailers Langton's, Cellarmaster's and Vinpac and delivery service Jimmy Brings. It is developing in-house branded wine and alcohol products through Pinnacle Drinks and has purchased a vineyard.

ENDEAVOUR DRINKS

The retail operation has a 40% market share and is more than 2.5x the size of nearest competitor Coles. It is possible that EDV's wine operations have greater sales than Aldi, the number three player in the retail alcohol market.

The average EDV store generates 62% more sales than the average Coles liquor store. Based on scale and likely site efficiency one would expect EDV to have substantial advantages over its major competitor. These advantages can be seen in retail margins. EDV generates profit margins of 6.4% on average while Coles Liquor generates profit margin of 3.75%.

The combination of a greater number of sites, higher sales per site and much higher margins per site makes Endeavour retail nearly five times as profitable as Coles Liquor. There is solid evidence that EDV is a much larger and better business than its main competitor.

EDV is also the largest hospitality operator in the country with 332 licensed venues. This is roughly twice that of the next largest player and four times that of the third largest group but accounts for only 5% of licenses nationally.

Through its hotels it operates more than 900 bars, 300 restaurants, 12,364 gaming machines, 290 TABs and more than 250 Keno venues. It also offers 2,200 hotel rooms across 103 venues. While these businesses have been impacted by COVID-19 over the last 18 months, we would expect them to normalise over time as we increase levels of vaccination.

The biggest near term risk in our view will be staffing. Both businesses are highly dependent on variable and seasonal labor. It is very likely that reducing immigration will have an impact on the quality, availability and price of labor. Ultimately we would expect that EDV, as the largest player, would be more productive and therefore require less labor per unit of sales than competitors. But it will not be immune to the problem.

What is the Outlook?

In the absence of further COVID-19 related shutdowns we think that 2021 will represent the bottom for the business. Retail is resetting to a pre -COVID level. Hospitality remains severely disrupted. We expect that 2022 will show material return to normalcy and that 2023 will show growth over 2018 and 2019 levels.

While the industry is unlikely to grow at levels above, or even equal to nominal GDP, there are reasons to expect that EDV can do better than the industry norms. It has operating and capital efficiencies that give it great economic advantages. Outside of high end venues, it ought to be able to consistently take market share for a decade.

It has purchasing power, the best sites, the largest web based business, the largest delivery business and a potentially valuable in house production and distribution capability. It would hardly surprise if own label brands grow to 10-20% of the market over a decade.

EDV ought to be best placed for selling alcohol over the internet. In an industry growing at 3% pa web based sales are growing at more than 16% pa. and are now nearly 7% of the market. EDV is better positioned than any other player to benefit from rapid growth in web based sales.

Ian Maloney
Manager - Share Trading

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*Please note that the content in this newsletter is general in nature and has not taken your personal or financial circumstances into consideration. If you have any questions please contact your adviser.

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